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The President's Daily Brief

November 6, 1974

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USSR-EGYPT

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The Soviets have shown an increased willingness to portray Secretary Kissinger's efforts in the Middle East as a failure and to urge the Arabs to make a "collective" effort in Geneva for a Middle East settlement. The USSR has been calling for the Geneva forum--where the Soviets would have a larger diplomatic role--since early this year and may believe the Arabs will now be more receptive.

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SAUDI ARABIA

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FOR THE PRESIDENT ONLY

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ISRAEL

Prime Minister Rabin took a firm line yesterday in formally rejecting the conclusions of the recent Arab summit. In a speech before the Knesset, Rabin ruled out negotiations with the Palestine Liberation Organization and warned Arab leaders against any notion that increased military pressure could lead to a political solution. The Knesset later voted to support Rabin's decision.

Rabin's presentation bore the earmarks of a holding action pending the arrival of Secretary Kissinger in Tel Aviv tomorrow. He made no new proposals, but he did make an effort to avoid any appearance of hardening in Israel's position, despite the complications resulting from the Rabat summit. Rabin said his government is still prepared to negotiate with Egypt, Jordan, and Syria, and to take some risks, presumably in the nature of territorial concessions, in seeking a peaceful solution.

The Israelis are still trying to sort out what practical effect the Rabat summit will have on the attitude of key Arab countries toward negotiations.

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PORTUGAL

The sacking of the Lisbon headquarters of the moderately conservative Social Democratic Center party on Monday evening puts to an early test the government's assurances that it intends to hold free elections next March.

A group of some 500 leftists associated with the Movement for the Reorganization of the Party of the Proletariat stormed the conservative party's offices after metropolitan police had forcibly blocked their attempts to disrupt a conservative youth rally. About 40 people reportedly were hospitalized as a result of the earlier confrontation.

The disorders came as no surprise; the leftists had distributed pamphlets clearly signaling their intention to provoke a clash. Among the more disturbing aspects of the incident at the party headquarters was the refusal of the Armed Forces Movement's police to heed repeated appeals for increased security protection before the sacking. The handful of police who were on the scene fled when the leftists arrived.

Leaders of the conservative party were to discuss the incident yesterday with Prime Minister Goncalves. They want the government to ban the leftist party responsible, in accordance with new legislation outlawing political parties that advocate violence.

The government's response will provide some indication as to whether it genuinely wants to foster an atmosphere in which all parties will be able to contest freely for votes in the election in March. Two rightist parties were suppressed after former president Spinola's ouster in September. Since then, the Portuguese Communist Party and the Popular Democratic Party, with whom the Communists are trying to form a front, have held large political rallies without incident.

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USSR - EASTERN EUROPE

Moscow is about to decide on pricing policy for Soviet crude oil exports to its East European allies for the period 1976-80. According to a senior Soviet economist, the price will be based on the average of world market prices over a three-year period, either 1971-73 or 1972-74.

Using the period 1972-74 as a base would be more lucrative for the Soviets, and they seem to be leaning in that direction. A price increase of this kind not only would force the East European countries to pay perhaps twice as much as they do now, but also would tie them more closely to the Soviet economy. The Soviets, for their part, would just as soon have it that way, and are doubtless looking forward to getting a better return for their oil.

The Soviet economist indicated the arguments the Soviets will be using to justify the eventual price hike. He stressed that, because of the three-year base period formula, East European costs will still be less than the international market price for crude oil and that the East European countries would be guaranteed a fixed quantity of oil for the five years after 1975.

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BAUXITE

Pressure for higher bauxite export taxes continues at this week's meeting of the International Bauxite Association in Guyana.

Jamaica took the lead in June when it increased the export tax by 500 percent, to about $12 per ton, and linked future increases to US aluminum prices. Jamaica supplies roughly 40 percent of US bauxite and alumina imports.

Other Caribbean exporters--accounting for 30 percent of US bauxite and alumina supplies--have since moved to boost levies. The refusal of the Reynolds Company to pay a retroactive tax imposed by Guyana has set the stage for the long-expected nationalization of Reynolds properties there.

Except for Guyana, the other Caribbean countries have moved cautiously in the face of strong resistance by the aluminum companies. As marginal bauxite suppliers, they are vulnerable to company threats to close down operations.

Company leverage, on the other hand, has been weakened by tight world bauxite supplies, the long lead time required to expand production from alternative sources, and an unpromising investment climate elsewhere. Reynolds, for example, has deferred action on a large Australian project, mainly because of government demands for a 51-percent equity share.

Producing countries outside the Caribbean area will move slowly. Although Australia wants increased bauxite revenues, the Whitlam government--faced with rising unemployment--is also under pressure to ease restrictions on direct foreign investment. In Guinea, exports to the US from large, newly developed deposits are only now getting under way, and additional foreign capital is needed to complete the projects.

Jamaica, meanwhile, has opened the second phase of negotiations with two of its six foreign aluminum companies. The Jamaicans are demanding 51-percent equity participation in the subsidiaries and reversion to the government of unmined concessions. The government appears willing to ease its previous tax measures if the companies will make concessions on the new demands.

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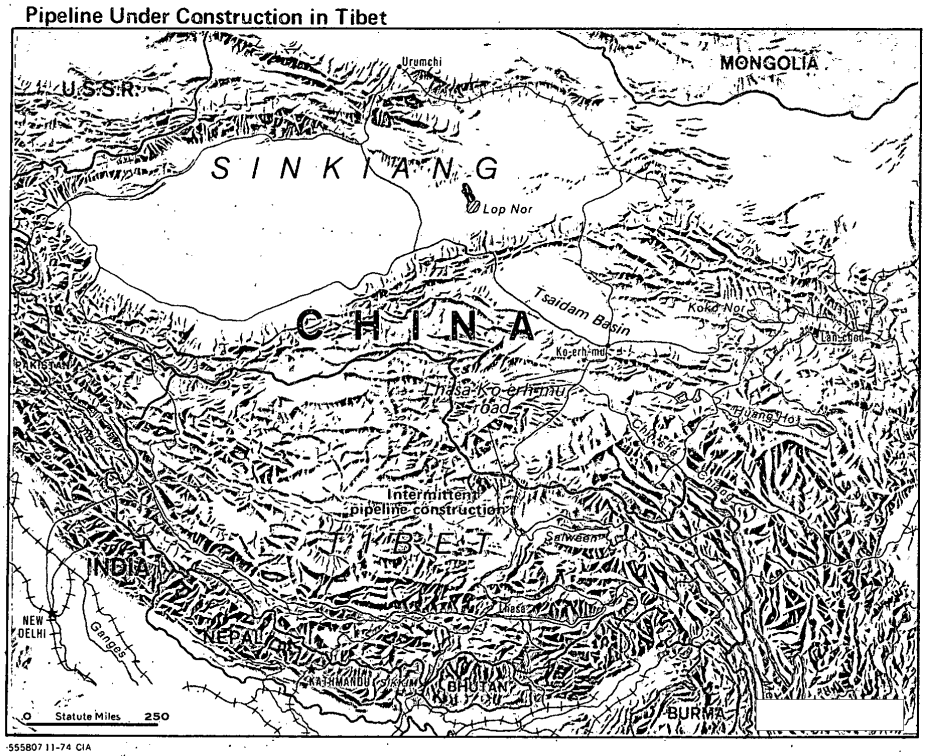
Pipeline Under Construction in Tibet



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Trucks on the Lhasa-Ko-erh-mu Road

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NOTES

China: The Chinese are building the first petroleum pipeline to Tibet as part of a continuing effort to improve Tibetan logistics and transportation. [redacted] The southern terminal will apparently be near Lhasa and the northern terminal at Ko-erh-mu. From there, the pipeline could be extended to refineries in the Tsaidam Basin. Peking is also surveying a projected rail line linking Lhasa with Lan-chou. A reliable petroleum supply would heighten Chinese military capabilities in the region, although extremely rugged terrain will continue to limit capability for offensive action. Petroleum for Chinese forces in Tibet [redacted] currently must be supplied by road.

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Iran: By the end of this year Iran will have some $9 billion in reserves, giving the Shah a comfortable cushion for increased lending and investment. Oil receipts of some $17 billion will more than offset Iran's substantial imports of defense and industrial equipment and other expenses. Iran probably will prepay about $1.5 billion of its high-interest debt and disburse an estimated $2 billion in credits, investments, and advanced payments for industrial installations.

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